We're moving forward

2001 ANNUAL REPORT

SODISCO-
HOWDEN

CORPORATE PROFILE

SODISCO-HOWDEN GROUP INC. IS A LEADING DISTRIBUTOR OF HARDWARE AND HOME RENOVATION PRODUCTS ACROSS CANADA. The Company serves more than 1,500 independent retailers generating more than $1.5 billion in annual sales. Currently, 750 of its 1,500 retailers operate under the Company's national PRO banner, a number of them operate under Sodisco-Howden's Do-it banner, with the remainder operating under a variety of independent banners. As the strategic partner of choice for independent Canadian hardware and home renovation outlets, Sodisco-Howden focuses on providing its customers with a wide variety of leading-edge products and the tools required for them to grow their business.

2001 OPERATIONAL HIGHLIGHTS

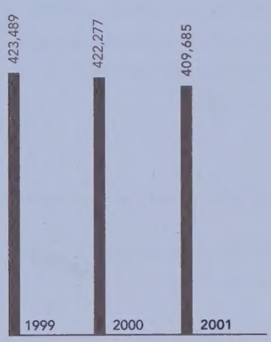
- Initiated Project Focus – corporate restructuring and productivity program, to streamline operations and achieve greater efficiencies. The results to be fully implemented by mid-2002 are:
  - A leaner management structure with better accountability and authority;
  - Centralized functions that eliminate duplication in merchandising, purchasing, marketing and sales management;
  - Improved efficiency on volume-sensitive variable areas such as picking, shipping and receiving;
  - Development of comprehensive measurement metrics on all key activities.
- Announced the acquisition of the hardware and building materials division of Marchands Unis Inc., for which closing occurred in early 2002, increasing Sodisco-Howden's annual sales by 25% to over $500 million.
- In conjunction with the acquisition of the hardware and building materials division of Marchands Unis Inc., announced a new $55 million credit facility, up from $40 million, resulting in greater financial flexibility.

FINANCIAL HIGHLIGHTS

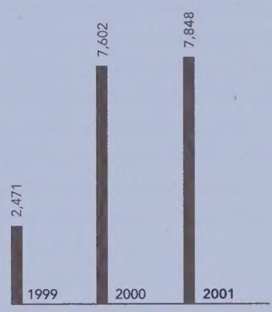
Years ended December 31	**2001**	2000
	(in thousands of dollars)	
SUMMARY OF ANNUAL RESULTS		
Revenues	**409,685**	422,277
Operating income before unusual items	**9,693**	14,588
Unusual items	**(10,972)**	—
Operating income (loss)	**(1,279)**	14,588
Cash flows from operating activities	**7,848**	7,602
Net earnings (net loss)	**(6,016)**	12,923

As at December 31	**2001**	2000
	(in thousands of dollars)	
FINANCIAL STRUCTURE		
Bank loans	**12,943**	18,853
Long-term debt due within one year	**1,176**	1,161
Long-term debt	**8,683**	9,732
Total debt	**22,802**	29,746
Shareholders' equity	**46,304**	52,320

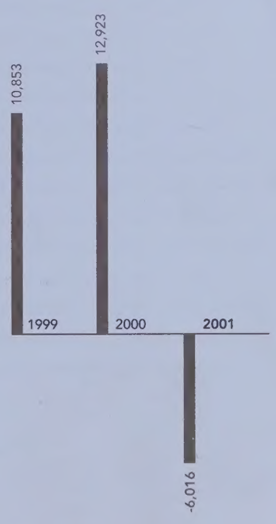
Revenues
(in thousands of dollars)



Cash flows from operating activities
(in thousands of dollars)



Net earnings (net loss)
(in thousands of dollars)



MESSAGE TO SHAREHOLDERS

2001 has been a difficult year for your Company... Some of you are going to say another one... and I cannot blame them. However, with the significant changes adopted in the second half of 2001, we are now in a much stronger position going forward and we firmly believe to be in a position to improve sales substantially and to return to good profitability in 2002.

Hubert A. de La Beaumelle

As you are aware, the Company has been involved in a significant turnaround since 1997. This required new management and resulted in the Company incurring substantial restructuring costs with a view to restoring its credibility vis-à-vis its merchants and its suppliers. The peak of this effort was the consolidation in fiscal 2000 of the five company banners into two, with a strong lead banner, PRO, representing 750 members. This move was critical because without it the Company might not have survived amidst a rapidly changing marketplace.

Still, 2001 revenues were down slightly, profitability was not progressing and the two acquisitions that we had made in the prior year were not developing according to our expectations. Also, we lost a few of our large non-bannered clients further to the consolidation trend within our industry.

In view of these unfavourable developments, I looked for a change in senior management to help create a new environment towards the next critical step in the development of the Company, namely a substantial increase in sales through internal and external growth. A company cannot be permanently in a turnaround situation and we had to move forward. This is why the Board decided to appoint Jos J. Wintermans, as President and CEO of Sodisco-Howden. Jos J. Wintermans has a strong record in turning around companies and, for what I have seen up to now, I firmly believe that we have made the right decision. I am confident that, at the next annual meeting, we will be proud to present to you the largest and most efficient Canadian distributor of hardware, creating value for our banner members, our independent customers, our suppliers, our employees and our shareholders.

HUBERT A. DE LA BEAUMELLE
Chairman of the Board

For Sodisco-Howden, 2001 was a year of transition. The Company refocused on market share and profitability as avenues to increased shareholder value. With those areas clearly established, Sodisco-Howden extensively restructured management, launched a broad-ranging internal productivity review to improve efficiency and reduce costs, and entered into a significant asset acquisition that will increase the Company's size by one-quarter.

Jos J. Wintermans

The acquisition of key assets of Marchands Unis Inc. will produce a significant impact on our top line as revenues are expected to increase by 25 per cent to over $500 million. This is in addition to an emphasis on improving sales with existing customers. During the transition in 2001, expenses increased substantially, largely due to costs associated with the internal productivity review (called Project Focus), write-downs of obsolete inventory and severance charges related to the management restructuring. These expenses were necessary to achieve our goal of improved shareholder value. Operating income before non-recurring items decreased 34 per cent to $9.7 million. Because of these items, the year ended with a net loss of $6.0 million.

These results were in keeping with expectations for the year as the Company reconfigures. I was brought in as President and CEO in mid-year and immediately acted to streamline management. At the senior level we eliminated one executive vice-president's position in sales, merchandising and marketing, with the result that three vice-presidents in that area now report directly to the CEO. Additional changes eliminate duplication, slim down the reporting structure and increase accountability across the Company, from management to operating levels.

New opportunities to increase market share

One objective of these changes is to position the Company to increase market share. The retail market for hardware and building materials is shifting. The proliferation of the "big box" format by the major chain stores in metropolitan areas brings into sharp relief the contrast in convenience and customer service with smaller independents operating neighborhood and small town stores. Market dynamics are therefore creating opportunities for Sodisco-Howden's dealers – and to properly serve this expanding client base, the Company needs to grow.

That was the reason for Sodisco-Howden's acquisition of the hardware and building materials division of Marchands Unis Inc. The agreement, which was completed in early 2002, increases Sodisco-Howden's bannered retail network by 150 outlets to more than 900 retailers. The additional dealer-operated outlets are mainly concentrated in Quebec, Eastern Ontario and French-speaking New Brunswick. The deal will significantly bolster our revenue base and positions the Company as the leading Canadian distributor to independent dealers of hardware and construction

materials. It also strengthens Sodisco-Howden's leadership position amid a consolidating industry, which adds to the Company's market momentum. In turn that enhances our ability to attract new dealers, which opens up new markets and provides a platform for continued organic growth. As we increase our critical mass, Sodisco-Howden increasingly becomes the strategic partner of choice for independent retailers.

The $23 million cost of the acquisition was drawn from a new $55 million credit facility. Terms of this new credit facility provide us with greater flexibility than what was previously in place.

The synergies stemming from the Marchands Unis assets will materialize as we integrate this acquisition into our improved warehouse operations in Victoriaville, Quebec.

PROJECT FOCUS: PRODUCTIVITY GAINS ENHANCING PROFITABILITY

To streamline operations and achieve greater efficiencies, Project Focus was launched. The in-depth review seeks to examine internal processes and procedures, define best practices and create new ways to enhance productivity in the context of a complete restructuring.

What emerged were:

- A leaner management structure with better accountability and authority;
- Centralized functions that eliminate duplication in merchandising, purchasing, marketing and sales management;
- Improved efficiency on volume-sensitive variable areas such as picking, shipping and receiving; and
- Comprehensive measurement metrics on all key activities.

Integral to this initiative is the restructuring of management and staff at the operating level. At our three hardware distribution warehouses in Victoriaville, Quebec; London, Ontario; and Langley, British Columbia, positions that formerly were narrowly defined have been broadened to include several additional positions. For example, the Warehouse Manager's responsibilities have been broadened to the extent that the position title has been changed to Operations Manager. Each operation is also being accorded a higher level of operating autonomy than before – but with the expectation that this will lead to greater accountability and generate superior results.

In addition, Project Focus emphasizes planning to a greater extent than ever before. Central to the new process is a proactive approach, planning the number of employees needed for a certain activity in a particular zone. For example, the rate at which items are picked from inventory and shipped to customers at the Victoriaville warehouse has increased over 15 per cent. That new standard is now being used to determine the number of employees needed to process a given number of lines to be picked. The benefits are quantifiable; at our London operation, the number of employees has been reduced by 25, amounting to 20 per cent of the workforce. Similar efficiencies are expected at other locations, and we expect to save $1.2 million annually in warehouse operations alone. These concepts are being deployed to identify synergies in other areas. For example, purchasing, merchandising, marketing, vendor management and sales management, which were performed at separate locations, have been centralized in Montreal. The benefits include elimination of duplication and overlap, plus better terms negotiated with suppliers because of combined purchasing power.

Another area of study for Project Focus is our customer. A search for better ways to serve our dealers gave rise to a number of measures. One of them is a higher level of training of our sales force, not the least of which is an expanded array of communication tools for use by Sodisco-Howden's sales force.

These are unprecedented changes that are having a substantial impact on virtually all areas of the Company. It has meant a completely new way of thinking and doing things, and a major challenge has been to change workplace procedures and behavior patterns of supervisors and staff alike. We have also met with union representatives in an effort to bring all stakeholders into the initiative. I'm pleased to report that everyone involved in the process has responded positively, which is the principal reason the program has started to yield outstanding returns.

Delivering shareholder value

Project Focus figures prominently as an element in the achievement of Sodisco-Howden's main priority of delivering shareholder value in 2002. Productivity-enhancing measures will continue to be implemented during the year, generating benefits that will become increasingly reflected in our financial results. As the Company returns to profitability, we will continue to nurture organic growth and seek out new acquisition opportunities. All future growth will provide for improved returns thanks to the initiatives taking place at all levels of our operations.

Looking ahead, Sodisco-Howden is better positioned than ever. The Company is transforming into an efficient and cost-effective provider to a burgeoning client base of independent hardware and building materials outlets. The economic environment, which continues to suffer from the tragic events of September 11, is not an impediment to Sodisco-Howden's business. When consumers retrench, they tend to minimize travel and stay at home – and look for ways to improve their residences. That leads them into our dealers' stores.

I would like to take this opportunity to thank our dealers for their business, our employees for participating so wholeheartedly in Project Focus, our Board of Directors for its invaluable guidance and counsel, and investors for their confidence in the future of our Company.

Jos J. Wintermans
President and Chief Executive Officer

Sodisco-Howden Group Inc. (the "Company") specializes in the distribution of hardware and home renovation products, serving a network of some 1,500 independent merchants operating outlets of various sizes across Canada.

Review of Activities

Most of the Company's revenues (75%) come from an integrated network of dealers who operate under the PRO and Do-it banners. Following the acquisition of the hardware and building material division of Marchands Unis Inc., the Bâtitout and Ferplus banners have been added to this list.

Dealers who operate under Company banners benefit from a broad spectrum of services, including a line of private-label brands, advertising and marketing programs, and a state-of-the-art electronic catalogue featuring more than 75,000 home products.

Based in Montreal, the Company boasts a number of modern operating facilities. Hardware distribution centres totalling almost 800,000 square feet are located in Victoriaville, Quebec, London, Ontario, and Langley, British Columbia, while lumber and building material facilities can be found in Saint-Nicolas and Rivière-du-Loup, Quebec.

Business Acquisition

On November 21, 2001, the Company submitted a binding offer for the hardware and building material assets of Marchands Unis Inc. Under the terms of the offer, the Company acquired the assets for a consideration of approximately $22,600,000. An additional sum of $750,000, to be disbursed in July 2002, will be subject to a final adjustment in 2003 as balance of purchase price, provided that certain performance objectives are met.

The transaction was concluded on February 17, 2002. As of that date, the related operating results and assets will be consolidated in the Company's financial statements.

According to the terms of the offer, the Company will also assume seasonal operating losses as of the effective date of the transaction, i.e. November 1, 2001. Results for the period between November 1, 2001 and February 17, 2002 will be charged to goodwill and are included in the sum disbursed in consideration for the assets acquired.

Revenues

Over the fiscal year ended December 31, 2001, the Company posted operating revenues of approximately $409.7 million, a reduction of 3% in relation to the figure registered in 2000. This decline was due in part to lower prices for certain lumber and building materials, the impact of which was more significant in the first half of the year. The Company also had to deal with the loss of certain corporate clients as a result of the consolidation trend that has characterized the industry over the past few years.

The drop in revenues over the previous year abated progressively as the year went by. After lagging 16% in the first quarter, revenues improved considerably, up 8% in the fourth quarter over the same period in 2000.

In addition to stable lumber and building material prices in the second half of the year, the relative improvement in sales for that period was attributable to the recruitment of new clients, favourable weather conditions, and the cocooning phenomenon, which shows no sign of waning.

The revenue figure distribution over the year remained stable in comparison with year 2000 numbers, i.e. about 60/40 respectively between hardware and lumber and building materials.

Operating Income

For the fiscal year ended December 31, 2001, operating income before unusual items stood at $9.7 million, or 2.4% of revenues, which corresponds to a drop of $4.9 million in relation to the $14.6 million recorded last year. This decline was due primarily to a reduction in volume and a slightly lower average profit margin.

Over the fiscal year ended December 31, 2001, the Company recorded $11.0 million in unusual items. These non-recurring expenses were the result of an intensive operating process review and productivity improvement program undertaken in the middle of the year in cooperation with a specialized firm.

In addition to significant productivity improvements in our distribution centres, this program will bring about other benefits including the centralization of purchasing, sales, marketing and merchandising personnel at the Montreal head office. The Company expects to achieve considerable savings on operating costs, the effect of which should be fully felt in the second half of 2002. The main items listed under unusual items are:

Severance pay and related costs	$ 4,759,000
Consulting fees	$ 4,432,000
Provision for obsolete inventory	$ 1,781,000
Total	$ 10,972,000

Depreciation and Amortization

For the fiscal year ended December 31, 2001, total depreciation and amortization expenses stood at $2.9 million, which was slightly above the amount registered last year. A portion of these expenses stemmed from the amortization of deferred costs used to modernize the PRO banner, an initiative begun in 2000. The Company also applied the straight-line method to amortize the share of goodwill from acquisitions made in 2000.

New accounting standards published in 2001 state that the balance of all goodwill with an indefinite life should no longer be amortized, beginning in 2002. However, goodwill will be subject to an annual impairment test, following which any downward adjustment will be presented in the results in the year during which it occurs. This change will represent an annual pre-tax reduction in depreciation and amortization of $329,000.

Financial Expenses

Charges totalling $2.1 million were allocated as financial expenses for 2001, which compares favourably with the figure of $3.3 million recorded last year. Interest on long-term debt amounted to $844,000, representing a favourable difference of $870,000 over 2000. This difference was due primarily to the conversion of debentures into common shares at the end of the first quarter of 2000. The favourable difference in financial expenses over bank loans stemmed not only from a decline in cost of capital, but also from the reduction in average bank loan balances in 2001.

Income Taxes

In 1999 and 2000, the Company recorded a tax benefit of approximately $9.0 million, comprised of fiscal losses and deductible timing differences applicable on earnings for future years. These amounts were included in the balance sheet as future income tax assets, and estimates were based on income tax rates in force at the time. However, policies issued periodically by the tax authorities have resulted in a reduction of future income tax rates for corporations. This gave rise to a loss of some $1.4 million for the Company, and corresponds to the difference between the original estimated rate for future taxes and that used as at December 31, 2001 in accordance with the new fiscal policies.

Total income taxes for 2001 amount to a credit balance of $129,000 excluding income taxes related to goodwill, which corresponds to the net amount of tax recovery for the year and the effect of the reduction in future income taxes. As at December 31, 2001, the allocation of the future tax asset balance into current

and long-term balance sheet items was calculated on the basis of a reasonable estimate of earnings anticipated by the Company.

Net Results

For the year ended December 31, 2001, the Company posted a net loss of $6.0 million, or $0.30 per common share, compared with earnings of $12.9 million, or $0.69 per share on a fully diluted basis, for the previous year. Excluding unusual items in 2001, these results translate into net earnings of some $699,000, or $0.04 per common share. A total of 19,779,802 common shares were outstanding at December 31, 2001.

Capital Structure

As at December 31, 2001, the balance sheet posted total assets of approximately $109.0 million, as compared with $117.3 million on the same date last year. This drop is due primarily to a reduction in inventory resulting from better inventory management, an increase in the provision for obsolete inventory, and the closure of a lumber and building materials distribution centre with a view to a partial centralization of operations.

Despite the decline in profitability experienced over the fiscal year ended December 31, 2001, cash flows from operations were higher than in 2000. This resulted in a significant decrease in the closing balance of bank loans. The improvement in cash flows from operations stemmed from a decrease in other working capital items as well as income taxes not affecting cash in 2000.

Over the fiscal year ended December 31, 2001, the Company began negotiating a new $55 million credit facility, a process concluded on January 29, 2002. This agreement was implemented concurrently as the Company acquired the assets of Marchands Unis Inc., and established new parameters for obtaining financing for future ventures.

On May 23, 2001, the Company renewed its normal course issuer bid under which it could purchase up to 988,978 common shares for cancellation. No common shares have been purchased since, the Company having decided to use its funds for strategic investments. It is unlikely that this type of program will be renewed in 2002.

The current ratio went from 1.52:1 at December 31, 2000 to 1.42:1 at December 31, 2001, while the debt-to-equity ratio equity remained stable at 0.19, illustrating the Company's healthy financial position.

Risk Management

Sodisco-Howden is exposed to risk factors and uncertainties that may have a noticeable influence on its operations. The external factors at play include the number of housing starts, sales of existing homes, consumer debt levels, fiscal policies, economic conditions, price fluctuations in certain cyclical products, and interest rates.

In addition to these external factors, the Company must optimize its strategic policies and investments, and develop efficient work methods to remain competitive and ensure long-term growth.

The home renovation sector has experienced profound changes over the past few years. In addition to a proliferation of big-box stores, the trend towards consolidation is stronger than ever.

The Company recently made an acquisition that will increase its sales by approximately 25%. Not only will this purchase contribute to the Company's growth, but it also confirms Sodisco-Howden's intention to become the partner of choice for independent dealers in Canada. The transaction will also stimulate organic growth by exerting a positive influence on dealers who are members of regional buying groups and even national networks. In the face of an increasing number of challenges, dealers will work harder to identify themselves with a firm that is truly nation-wide in scope.

One of the Company's competitive qualities is the entrepreneurial spirit of its dealers, who must rely on their autonomy to sustain their operations. Combined with the Company's expertise in product distribution, merchandising and related services, the network constitutes a force to be reckoned with on the Canadian market.

The phenomenon of big-box store growth is economically justified only in high-density urban centres. Most of the dealers making up the Company's networks are located outside such areas. The growing number of mass merchandisers has resulted in a noticeable territorial overlap that tends to increase inter-store competition rather than rivaling traditional hardware stores and renovation centres. Furthermore, consumer behaviour confirms the existence of two types of customers: those who opt for the variety of products available in superstores, and those who appreciate the personalized service and proximity of traditional outlets.

To cope with competitors whose financial strength is sometimes considerable, the Company must rely on highly efficient operations and an optimized cost structure. Over the past year, the Company has launched an intense, organization-wide process review program. The purpose of this initiative is to improve the work methods of distribution centre staff, centralize certain employees at the head office, and review the content of a number of different product lines.

Such a fundamental analysis of operations will ultimately better position the Company as a leader in its field. The sums invested in the program will benefit not only the Company's existing activities, but also those related to the integration of the assets acquired from Marchands Unis Inc., thus enhancing the synergies stemming from the acquisition.

Outlook

Despite the somewhat disappointing results for 2001, the Company is optimistic about the future. Steps taken in 2001 will result in a healthier operating cost structure. In the short term, efforts will be dedicated to integrating the assets acquired from Marchands Unis Inc. This process should confirm the anticipated synergies, the results of which will be fully felt beginning in the second quarter of 2002.

Current economic conditions seem favourable to investments in the field of construction and home renovation. Interest rates are at their lowest level in several decades, thus encouraging consumers to maintain the pace.

Furthermore, a higher proportion of discretionary spending is being dedicated to residential investments, especially since last fall, while cocooning is being given priority over other recreational activities.

Thanks to the Company's cost-cutting and market share expansion measures, its future in a growing market looks promising.

ROBERT HARRITT
Executive Vice-President and Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

Management's Report

Management's Responsibility for Financial Reporting

The consolidated financial statements of Sodisco-Howden Group Inc., including the notes to the financial statements presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management.

The Company has established the necessary accounting systems, policies and procedures to provide reasonable assurance as to the reliability of the financial information and to safeguard the assets.

The Audit Committee of the Board of Directors is composed of a majority of outside directors. It reviews in detail in the presence of the auditors and members of management, the consolidated financial statements and recommends their approval to the Board. The Committee also examines quarterly financial results regularly.

The Company's external auditors, Raymond Chabot Grant Thornton, are appointed by the shareholders to provide an objective, independent review of management's discharge of its responsibilities as it relates to the fairness of reported operating results and financial position. Their report is given hereafter.

Jos J. Wintermans
President and
Chief Executive Officer

Robert Harritt
Executive Vice-President and
Chief Financial Officer

March 8, 2002

Auditors' Report

To the Shareholders of Sodisco-Howden Group Inc.

We have audited the consolidated balance sheets of Sodisco-Howden Group Inc. as at December 31, 2001 and 2000, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton
General Partnership
Chartered Accountants
Montreal, March 8, 2002

CONSOLIDATED BALANCE SHEETS

As at December 31	**2001**	2000
	(in thousands of dollars)	
ASSETS		
Current assets		
Accounts receivable	**34,334**	34,470
Inventories	**37,707**	43,912
Prepaid expenses	**1,040**	1,059
Future income taxes (Note 10)	**3,492**	4,762
	76,573	84,203
Investments (Note 4)	**680**	1,233
Fixed assets (Note 5)	**22,368**	23,494
Future income taxes (Note 10)	**5,924**	4,212
Other assets (Note 6)	**3,474**	4,159
	109,019	117,301
LIABILITIES		
Current liabilities		
Bank loans (Note 7)	**12,943**	18,853
Accounts payable	**39,913**	35,235
Long-term debt due within one year (Note 8)	**1,176**	1,161
	54,032	55,249
Long-term debt (Note 8)	**8,683**	9,732
	62,715	64,981
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	**38,556**	38,556
Retained earnings	**7,748**	13,764
	46,304	52,320
	109,019	117,301

The accompanying notes are an integral part of the consolidated financial statements.

For the Board of Directors,

JOS J. WINTERMANS
Director

HUBERT A. DE LA BEAUMELLE
Director

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of dollars, except for earnings per share)

Years ended December 31	**2001**	2000
Revenues	**409,685**	422,277
Earnings before the following items	**9,693**	14,588
Interest on long-term debt	**844**	1,714
Other interest	**1,244**	1,562
Depreciation of fixed assets	**2,130**	2,096
Amortization of deferred costs	**463**	284
Unusual items (Note 11)	**10,972**	—
Gain on sale of fixed assets	**(10)**	(35)
	15,643	5,621
Earnings (loss) before income taxes and costs related to goodwill	**(5,950)**	8,967
Income taxes (Note 10)	**(129)**	(4,238)
Net earnings (net loss) before costs related to goodwill	**(5,821)**	13,205
Costs related to goodwill, net of income taxes of $84 ($52 in 2000)	**195**	282
Net earnings (net loss)	**(6,016)**	12,923
Earnings (loss) per share, basic		
Before costs related to goodwill	**(0.29)**	0.71
After costs related to goodwill	**(0.30)**	0.69
Earnings per share, fully diluted (loss per share) (Note 9)		
Before costs related to goodwill	**(0.29)**	0.71
After costs related to goodwill	**(0.30)**	0.69
Weighted average number of shares outstanding (in thousands)	**19,780**	18,696
Adjusted weighted average number of shares outstanding (in thousands)	**19,780**	18,789

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED RETAINED EARNINGS

(in thousands of dollars)

Years ended December 31	**2001**	2000
Retained earnings, beginning of year	**13,764**	878
Net earnings (net loss)	**(6,016)**	12,923
	7,748	13,801
Costs related to the consolidation and conversion of shares	**—**	(37)
Retained earnings, end of year	**7,748**	13,764

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOWS

Years ended December 31	**2001**	2000
	(in thousands of dollars)	
OPERATING ACTIVITIES		
Net earnings (net loss)	**(6,016)**	12,923
Depreciation of fixed assets and amortization of deferred costs and goodwill	**2,872**	2,714
Future income taxes	**(441)**	(4,444)
Interest on convertible debentures	**—**	769
Deferred rental incentive	**(15)**	—
Gain on sale of fixed assets	**(10)**	(35)
	(3,610)	11,927
Changes in working capital items (Note 12)	**11,458**	(4,325)
Cash flows from operating activities	**7,848**	7,602
FINANCING ACTIVITIES		
Bank loans	**(5,910)**	6,870
Rental incentive	**231**	—
Repayments of long-term debt	**(706)**	(682)
Shares purchased	**—**	(321)
Disbursements related to the redemption and conversion of debentures	**—**	(1,203)
Costs related to the consolidation and conversion of shares	**—**	(37)
Issue of common shares from employee stock options	**—**	5
Cash flows from financing activities	**(6,385)**	4,632
INVESTING ACTIVITIES		
Investments	**553**	(131)
Additions to fixed assets	**(1,335)**	(1,715)
Disposal of fixed assets	**12**	75
Deferred costs	**(693)**	(853)
Business acquisitions	**—**	(9,610)
Cash flows from investing activities	**(1,463)**	(12,234)
CHANGE IN CASH AND CASH EQUIVALENTS	**—**	—

The accompanying notes are an integral part of the consolidated financial statements.

DECEMBER 31, 2001 AND 2000

(Monetary amounts in tables are in thousands of dollars, except amounts per share)

1 › Governing statute and business activity

Sodisco-Howden Group Inc. is incorporated under Part 1A of the Companies Act (Quebec) and distributes home improvement products throughout Canada.

2 › Accounting policies

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments having a term of three months or less.

Inventory valuation

The inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method and by the average cost method.

Investments

Investments are presented at cost.

Depreciation

Fixed assets are valued at cost and are depreciated over their estimated useful lives according to the following methods and annual rates:

	Methods	Rates
Buildings and land improvements	Straight-line and diminishing balance	2% to 5%
Furniture, equipment and automotive equipment	Straight-line and diminishing balance	5% to 33 1/3%

Deferred costs

Deferred costs relate to charges incurred in connection with a banner conversion program as well as costs related to a new credit facility and are amortized using the straight-line method over a three-year period.

Goodwill

Goodwill represents the difference between the purchase price and the fair value of net assets of acquired businesses. Goodwill is amortized using the straight-line method over a ten-year period.

Translation of currencies

Monetary assets and liabilities resulting from currency transactions are translated into Canadian dollars using the year-end translation rate. Charges are translated at the average exchange rate prevailing throughout the year. Gains and losses on translation are included in the statement of earnings.

Income taxes

Income taxes are recorded according to the liability method of tax allocation. According to this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases for assets and liabilities, and are measured using estimated tax rates which will be in effect when the differences are expected to be reversed.

Changes in accounting policies

The CICA published new accounting policies with respect to "Business combinations" and "Goodwill and intangible assets" under which business combinations entered into starting July 1, 2001, must be accounted for under the purchase method.

Effective January 1, 2002, goodwill and intangible assets with indefinite life will no longer be amortized and will be subject to a yearly impairment test in order to determine their value according to the new policies. Any reduction in value would be posted to earnings in the year during which it occurs.

Also, the new policies provide for a transitional rule under which such assets will be subject to an evaluation at the beginning of financial year 2002. Any reduction in value would be posted directly to the opening balance of retained earnings.

Furthermore, effective January 1, 2001, the Company adopted retroactively the new recommendations issued by the CICA with respect to earnings per share. Under the new standard, the diluted earnings per share are determined using the treasury stock method, which resulted in an increase of the earnings per share of $0.02 in 2000.

3 › Business acquisitions

On April 3, 2000, the Company acquired total operating assets related to a distributor of hardware products located in British-Columbia. On July 14, 2000, the Company also acquired certain assets of a hardware products distributor located in Ontario. Both acquisitions were accounted for under the purchase method and are detailed as follows:

Accounts receivable	2,716
Inventories	3,472
Fixed assets	496
Goodwill	3,289
	9,973
Liabilities assumed	173
Net assets acquired	9,800

During the year ended December 31, 2001, a sum of $635,000 was posted in reduction of goodwill further to the final adjustment based on performance targets.

4 › Investments

	2001	2000
Loans and advances, at variable interest rates and terms	**452**	1,005
Partnerships in buying groups	**228**	228
	680	1,233

5 › Fixed assets

	2001		
	Cost	Accumulated depreciation	Net
Land	**3,767**	**—**	**3,767**
Buildings and land improvements	**25,309**	**11,175**	**14,134**
Furniture and equipment	**24,282**	**19,973**	**4,309**
Automotive equipment	**1,196**	**1,038**	**158**
	54,554	**32,186**	**22,368**

	2000		
	Cost	Accumulated depreciation	Net
Land	3,767	—	3,767
Buildings and land improvements	25,477	10,717	14,760
Furniture and equipment	23,523	18,686	4,837
Automotive equipment	1,137	1,007	130
	53,904	30,410	23,494

During the year, fixed assets were acquired under capital leases for a total cost of $197,000 ($445,000 in 2000).

6 › Other assets

	2001			2000
	Cost	Accumulated amortization	Net	Net
Deferred costs	**1,546**	**748**	**798**	569
Goodwill	**3,289**	**613**	**2,676**	3,590
	4,835	**1,361**	**3,474**	4,159

7 › Bank loans

In September 2000, the Company renewed a credit facility of a maximum of $40,000,000 for a three-year period ending on September 30, 2003.

The bank loans are secured by movable hypothecs on the Company's present and future assets, including accounts receivable, inventories and certain fixed assets.

Bank loans bear interest at the lender's prime rate plus 0.5% or, at the Company's option, at the lender's banker's acceptance rate plus 1.5% (0.75% and 1.875% respectively, prior to September 30, 2000).

The Company is also required to respect certain financial covenants which, at the date of the financial statements, had been met.

8 › Long-term debt

	2001	2000
Mortgage loan, 8.11%, nominal value of $7,500,000, repayable by monthly instalments of $66,987, principal and interest, maturing on July 1, 2002	**5,735**	6,067
Mortgage loans, 8.15% (8.9% in 2000), nominal value of $4,500,000, repayable by monthly instalments of $31,240, maturing in 2011	**3,499**	3,873
Obligations under capital leases bearing interest at rates varying from 1.77% to 10.00% and maturing on various dates up to 2003	**625**	953
	9,859	10,893
Long-term debt due within one year	**1,176**	1,161
	8,683	9,732

Principal repayments of long-term debt over the next five years are $1,176,000 in 2002, $902,000 in 2003, $796,000 in 2004, $831,000 in 2005 and $869,000 in 2006.

Convertible debentures

Further to a Board resolution adopted on December 30, 1999, the Company offered series D, DD and E debenture holders a premium of $0.025 per nominal value dollar and accrued interest as long as debentures were converted by March 23, 2000. Also, on January 14, 2000, the Company issued a notice advising series E debenture holders that on March 24, 2000, the Company would proceed to the redemption of all series E outstanding debentures as at March 23, 2000, midnight. Debentures for a nominal value of $12,242,000 and accrued interest of $1,005,000 were converted into 5,297,677 common shares (105,969,512 before the consolidation of shares) for a consideration of $13,247,000 and the balance of debentures with a nominal value of $688,000 was redeemed for $728,000 including $40,000 in accrued interest. A premium of $331,000 was also paid to the holders further to the conversion of debentures. Moreover, these transactions increased the capital stock by $2,748,000 net of costs of $144,000.

9 › Capital stock

Authorized capital stock is as follows:

- Unlimited number of shares without nominal value
  - First preferred shares issuable in series
    - 2,650,000 series 2 preferred shares, with a cumulative dividend of $0.65, redeemable at a price of $10.00 per share at all times.
  - Second preferred shares issuable in series
    - Series A preferred shares with cumulative dividend at an annual rate of 6.5% of the paid-up capital, redeemable at a price of $0.50 per share at all times and retractable at a price of $0.50 per share.
  - Voting and participating common shares.

In 2000, the Company proceeded to modify its share capital resulting in the consolidation of common shares on the basis of a 20 : 1 ratio.

A) Issued and fully paid capital stock is as follows:

	2001		2000	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	19,779,562	38,556	14,609,025	22,877
Conversion of debentures	—	—	5,297,677	15,995
Shares purchased (Note 9 C)	—	—	(130,000)	(321)
Shares issued following the exercise of stock options	240	—	2,860	5
Balance, end of year	19,779,802	38,556	19,779,562	38,556

B) Stock option plan

The Company has a stock option plan for certain managers to a maximum of one million shares, for which a resolution will be proposed to the shareholders during the next annual meeting to increase the maximum number up to 1,500,000 shares. These options may be exercised during the term of the contract which expires within a maximum of 10 years from the grant date.

	2001		2000	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	512,805	2.38	366,895	2.00
Granted	1,286,000	2.10	204,300	3.12
Exercised	(240)	1.70	(2,860)	1.70
Cancelled	(567,200)	2.31	(55,530)	2.63
Outstanding, end of year	1,231,365	2.14	512,805	2.38
Exercisable options	25,216	2.64	281,272	1.97

C) Share purchasing program

Further to shareholder approval dated May 9, 2001, the Company renewed a share purchase program under a normal course issuer bid. Under this program, the Company can purchase for cancellation, during a twelve-month period ending May 22, 2002, a maximum of 988,978 common shares (995,469 in 2000). During the year, no shares were purchased (130,000 shares were purchased for a consideration of $321,000 in 2000).

D) Earnings from continuing operations per common share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computations.

	2001	2000
Basic		
Net earnings (net loss)	**(6,016)**	12,923
Weighted average number of common shares outstanding	**19,779,682**	18,696,239
Earnings (loss) per share, basic	**(0.30)**	0.69
Diluted		
Net earnings (net loss)	**(6,016)**	12,923
Weighted average number of common shares outstanding	**19,779,682**	18,696,239
Effect of dilutive stock options	**—**	92,626
Adjusted weighed average number of common shares outstanding	**19,779,682**	18,788,865
Earnings per share, fully diluted (loss per share)	**(0.30)**	0.69

Options to purchase 4,500 common shares were outstanding in 2000 but were not included in the computation of diluted earnings per share as the exercise price of the options was greater than the average market price of the common shares.

10 › Income taxes

The provision for income taxes are detailed as follows:

	2001	2000
Current income taxes	**228**	154
Future income taxes	**(441)**	(4,444)
	(213)	(4,290)

The main items that resulted in differences between the Company's effective income tax rates and the combined statutory income tax rate in Canada are detailed as follows:

	2001	2000
Combined statutory income tax rate in Canada of 38.8% (40.4% in 2000) (a)	**(2,416)**	3,488
Non deductible expenses	**557**	204
Large corporations tax	**120**	154
Valuation of income taxes assets	**—**	(8,270)
Effect of the reduction of the combined statutory rate in Canada applicable to future income taxes	**1,437**	123
Other	**89**	11
	(213)	(4,290)

(a) The Company's combined statutory income tax rate includes the appropriate provincial tax rates.

The amount of $9,416,000 ($8,974,000 in 2000) accounted for as future income tax asset includes all losses from previous years other than capital losses of $4,840,000 ($4,670,000 in 2000), a tax credit of $108,000 and deductible timing differences of $23,594,000 ($19,157,000 in 2000) essentially related to fixed assets.

11 › UNUSUAL ITEMS

During the year ended December 31, 2001, the Company launched a major review of its operational and administrative processes with the help of a specialized firm. In connection with this review, certain administrative services will be centralized to head office, work methods have been improved in the distribution centres and certain product lines were revised. Accordingly, the Company encountered one-time costs recorded as unusual items, for which the details are as follows:

	2001
Severance pay and related costs	4,759
Consulting fees	4,432
Provision for obsolete inventory	1,781
	10,972

12 › INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in working capital items are as follows:

	2001	2000
Accounts receivable	136	4,170
Inventories	6,205	347
Prepaid expenses	19	(184)
Accounts payable	5,098	(8,658)
	11,458	(4,325)

Cash flows relating to interest and income taxes are detailed as follows:

	2001	2000
Interest paid	2,088	2,507
Income taxes paid	228	154

13 › FAIR VALUE OF FINANCIAL INSTRUMENTS ON THE BALANCE SHEET

Amounts indicated below represent the fair value of financial instruments on the Company's balance sheet calculated using the valuation methods and assumptions indicated hereinafter.

The fair value is intended to represent estimated amounts for which financial instruments could be exchanged currently in a transaction between consenting parties. However, under normal course of business, the Company does not negotiate these financial instruments on the open market.

The estimated fair value of the financial instruments as at December 31 is as follows:

	2001		2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Accounts receivable	34,334	34,334	34,470	34,470
Investments	680	B)	1,233	B)
Liabilities				
Bank loans	12,943	12,943	18,853	18,853
Accounts payable	39,913	39,913	35,235	35,235
Mortgage loans and obligations under capital leases	9,859	9,859	10,893	10,893

The following methods and assumptions were used to calculate the estimated fair value of the financial instruments on the balance sheet.

A) Financial instruments valued at carrying amount

The estimated fair value of certain financial instruments shown on the balance sheet is equivalent to their carrying amount because they are realizable in the short-term. These financial instruments include accounts receivable, bank loans and accounts payable.

B) Investments

The fair value of investments was not determined because these transactions were made to maintain trade relationships that are favourable to the Company and they do not necessarily reflect the terms that would be negotiated on an arm's length basis with third parties.

C) Mortgage loans

The fair value of mortgage loans is determined by discounting the future cash flows at market rates on the balance sheet date for similar maturity dates.

14 › Contractual obligations

The Company entered into long-term leases for commercial space and equipment that expire at various dates until 2011, under which total minimum rent amounts to $3,132,955. The minimum rent payments for the next five years are as follows: $592,933 $ in 2002, $592,373 in 2003, $592,373 in 2004, $294,746 in 2005 and $189,037 in 2006.

15 › Subsequent events

On November 21, 2001, the Company entered into a binding offer for the purchase of certain assets of the hardware and building material activities of Marchands Unis Inc., for a total sum of approximately $22,600,000. The closing of the transaction occurred February 17, 2002 and the disbursement was financed from bank loans.

An additional amount of $750,000 will be put in trust in July 2002, to be disbursed in 2003, subject to certain performance targets being met. Any amount payable hereunder will be posted to goodwill.

Moreover, on January 29, 2002, the Company entered into an agreement over a three-year period for a new credit facility of $55,000,000. Under the terms of the agreement, the Company may draw bank loans at the prime rate of the lender plus 0.75%.

The bank loans will be secured by movable hypothecs. The Company will be required to comply to certain financial ratios.

FIVE-YEAR FINANCIAL SUMMARY

(in thousands of dollars)

Years ended December 31	**2001**	2000	1999	1998	1997
Revenues	**409,685**	422,277	423,489	363,618	353,557
Earnings before the following items	**9,693**	14,588	13,155	10,393	8,523
Interest on long-term debt	**844**	1,714	3,458	3,032	3,338
Other interest	**1,244**	1,562	1,600	2,321	2,727
Depreciation of fixed assets	**2,130**	2,096	1,655	1,907	2,529
Amortization of deferred costs	**463**	284	—	—	—
Unusual items	**10,972**	—	—	—	—
Loss (gain) on sale of fixed assets and other	**(10)**	(35)	(31)	153	14
	15,643	5,621	6,682	7,413	8,608
Earnings (loss) before income taxes and costs related to goodwill	**(5,950)**	8,967	6,473	2,980	(85)
Income taxes	**(129)**	(4,238)	(4,380)	233	167
Net earnings (net loss) before costs related to goodwill	**(5,821)**	13,205	10,853	2,747	(252)
Costs related to goodwill, net of income taxes of $84 in 2001 ($52 in 2000)	**195**	282	—	—	—
Net earnings (net loss)	**(6,016)**	12,923	10,853	2,747	(252)

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars)

	March	June[1]	September[2]	December	**Total**
Revenues					
2001	72,632	119,722	108,306	109,025	**409,685**
2000	86,294	134,846	100,261	100,876	**422,277**
Operating income before unusual items					
2001	858	3,364	2,817	2,654	**9,693**
2000	1,944	5,073	3,410	4,161	**14,588**
Earnings (loss) before income taxes and costs related to goodwill					
2001	(437)	(62)	590	(6,041)	**(5,950)**
2000	165	3,856	2,086	2,860	**8,967**
Net earnings (net loss)					
2001	(385)	(202)	279	(5,708)	**(6,016)**
2000	126	5,782	2,803	4,212	**12,923**

(1) 13 weeks in 2001 and 14 weeks in 2000.

(2) 13 weeks in 2001 and 12 weeks in 2000.

DIRECTORS

HUBERT A. DE LA BEAUMELLE[1,2,3]
Chairman of the Board of the Company
President
Paribas Participations Limitée

ARKADI BYKHOVSKY[2,3]
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Senior Partner and
Chairman of the Board
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MICHAEL B. HARDING[2,3]
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CHRISTIAN VARIN
Managing Director
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JOS J. WINTERMANS[3]
President and Chief Executive Officer
Sodisco-Howden Group Inc.

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President and Chief Executive Officer

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Executive Vice-President and
Chief Financial Officer

CÉLINE GAMACHE
Vice-President, Marketing and
Business Development

SERGE IMBEAULT
Vice-President, Operations

LUC LEMONDE
Vice-President, Merchandising

SYLVAIN PELLETIER
Vice-President, Human Resources

MARIE LAGACÉ
Secretary

MARC FORTIN
Corporate Controller

1) Audit Committee

2) Human Resources and Corporate Governance Committee

3) Executive Committee

CORPORATE GOVERNANCE

The statement of the Company's corporate governance practices can be found in the Information Circular.

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ANNUAL MEETING

The Annual and Special General Meeting of Shareholders will take place at 11:00 AM, May 7, 2002, at the Delta Centre-Ville Hotel, Salon Cartier, 777 rue University, Montreal, Quebec.

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